EXHIBIT I-3

Smart Formulary Management

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Express Scripts is always looking for ways to remove waste, lower costs and improve outcomes. As such, we updated our 2014 National Preferred Formulary.

TAGS

COMMERCIAL

For years, pharmacy plan sponsors have used tiered formularies that require different member copayments for different levels of medication – for example, $10 for a generic and $20 for a brand-name medication. Patients have an incentive to choose lower-cost medications, and now nearly 80% of prescriptions filled in the U.S. are for generics. And as a result, U.S. annual spending on traditional medications (~/media/07e71c2358f244678d1812c80e273014.ashx) is increasing at a slower rate than overall consumer inflation.

As prescription drugs have become more affordable, we have seen a corresponding increase in access and adherence to these medications.

Truly, few other areas in healthcare have been as successful improving health outcomes while lowering costs as the prescription drug formulary.

The Tilting Manufacturer-Payer Dynamic

Three notable trends have begun to tilt the dynamic between drug manufacturer and healthcare payer, and in doing so, threaten the effectiveness of the traditional formulary:

1. **Increased Drug Choices.** Today, drug choices in many therapy classes are larger than ever, with many products costing more with no additional health benefit. In addition to the recent wave of generics, the drug market has seen an expansion of “me-too” branded products that, for the vast majority of patients, deliver similar outcomes as do medications already on the market.

2. **Widening Gap Between Brand-Name and Generic Pricing.** It’s common knowledge that generics cost less than brand-name medications. What’s less known is how wide the gap has become. As measured by the Express Scripts Prescription Price Index (/lab/insights/drug-options/price-gap-widens-between-brand-and-generics), a market basket of the most commonly used generic medications has *decreased* in price by more than 40% over the past five years. In contrast, over that same time period, a market basket of the most commonly used brand-name medications has *increased* in price by more than 65%. Combining the brand inflation with the generic deflation, this net price gap has widened more than 105 percentage points. What it means is this: Choosing brand names over clinically equivalent generics costs a significantly higher premium now than it used to.

3. **Use of Copayment Coupons to Circumvent Formularies.** In an effort to maintain marketshare within competitive therapy classes, many drug manufacturers are now offering copayment cards or coupons to patients. As highlighted recently in the *New England Journal of Medicine*, manufacturers only offer these cards if there is a lower-cost alternative (http://www.nejm.org/doi/full/10.1056/NEJMp1301993). While these coupons discount products for patients, they also circumvent the formulary structure and provide incentives for patients to choose a medication that is more costly for their employer or health plan. In 2011, the Pharmaceutical Care Management Association (http://www.pcmanet.org/images/stories/uploads/2011/Nov2011/visante%20copay%20coupon%20study.pdf) found that copayment coupons will increase 10-year prescription-drug costs by $32 billion for employers, unions and other plan sponsors if current trends continue.

As drug manufacturers continue to expand these tactics, now is the time for payers to leverage the competition within each therapy class to increase the overall affordability of prescription drugs.

Our National Preferred Formulary

Express Scripts is always on the lookout for ways to remove waste, lower healthcare costs and improve patient outcomes. As such, we recently moved 48 products to “not covered” status for our 2014 National Preferred Formulary, which is the selected formulary for approximately 30% of our members. A few notes about these products:

They represent about 1% of all the products currently on our formulary.

They are used by fewer than 3% of our members.

They all have clinically equivalent alternatives on the market that remain on our formulary.

Nearly all of them have copayment cards that unnecessarily drive up the overall cost of care.

Our clients who have chosen to use our National Preferred Formulary will save, in total, an estimated $700 million next year based on these exclusions.

This common-sense approach to formulary management controls costs and sustains the pharmacy benefit, all while protecting member health.

How Our National Preferred Formulary Is Updated

Based upon guidance from an independent group of expert health professionals – our Pharmacy & Therapeutics (P&T) Committee – we re-evaluate our National Preferred Formulary on an annual basis. We look at the formulary first from a clinical perspective to ensure that it provides access to safe and effective medications in all therapy classes. Secondly, and only after the clinical requirements have been achieved, we evaluate the formulary for its cost-effectiveness.

If there are more expensive products that, according to our independent P&T Committee, offer no additional health benefit than products already covered on the formulary, we may place them on a higher tier of the formulary or remove these products altogether.

Ensuring All Members Get the Medication They Need

We strive to ensure that our members have access to the medications they need. And for the vast majority of our members, our standard formulary will achieve that goal.

However, we understand there may be rare instances when an on-formulary alternative may not be an option for a particular patient. For these situations, we have a standard exception process that physicians may pursue to have an off-formulary, “medically necessary” drug covered for their patient.

AUTHOR Bio

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